GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2639
ANSWERED ON:31.08.2007
CALIBRATED INTERVENTION BY THE MONETARY AUTHORITY
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Will the Minister of FINANCE be pleased to state:

(a) whether the indirect measures taken by the Central Bank to control inflation have led to a situation where banks share pushing up rates on both deposits and loans;

(b) if so, the details thereof;

(c) whether the banks iire ignoring the credit requirement of a number of productive sectors; and

(d) if so, the measures seirig taken to control calibrated intervention by the monetary authority?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) to (d) : The Commercial Banks operate in the Monetary Policy framework of the Reserve Bank of India (RBI). The RBI in its First Quarter Review of Annual Statement on Monetary Policy for the year 2007-08, released on July 31, 2007, has indicated that it would continue with its policy of Active Demand Management of liquidity through appropriate use of the Cash Reserve Ratio (CRR) stipulations and Open Market Operations (OMO), using all the policy instruments at its disposal flexibly as and when the situation warrants.

Effective from October 18, 1994, the RBI has deregulated the interest rates and advances above Rs.2 lacs including tb; housing loans and these interest rates are determined by the Banks themselves with the approval of their Boards. For credit limits upto Rs.2 lacs, the Benchmark Prime Lending Rate (BPLR) has been prescribed as the ceiling lending rate. The Banks have also been allowed to freely price their own products below or above their BPLR and offer floating rate products in a transparent manner.

Effective from October 22, 1997, the RBI has given freedom to the Commercial Banks to fix their own interest rates on ths domestic term deposits of various maturities with prior approval of their Boards. The interest rtes on Savings Banks Deposits, however, continue to be administered by the RBI.

The deployment of non-food credit indicates the following, year-on-year variation for different sectors:

Sector	Year-on-year variation (%) (May 26, 2006 to May 25, 2007)
1. Agriculture	32.2
2. Industries (Small, medium and large)	26.4
3. Services	26.1
4. Total non-food gross bank credit	26.4

It would be observed from the above table that there has been an increase in bank credit to all the important sectors.